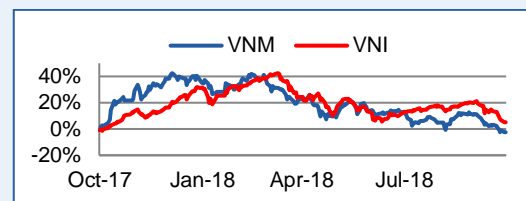




Vinamilk (VNM)

Earnings Flash

Industry:	Dairy		<u>2017</u>	<u>9M/18</u>	<u>2018F</u>
Report Date:	October 30, 2018				
Current Price:	VND117,300	Rev y/y	9.1%	2.2%	5.0%
Last Target Price:	VND131,300	EPS y/y	9.6%	-7.3%	-0.6%
Upside:	+11.9%	GPM	47.5%	46.6%	46.1%
Dividend yield:	+3.8%	NPM	20.2%	20.0%	19.1%
TSR:	+15.7%	EV/EBITDA	15.5x	N/A	15.3x
Rating:	OUTPERFORM	P/Op CF	19.7x	N/A	19.5x
		P/E	22.0x	N/A	22.2x



Market Cap:	\$8.8bn		<u>VNM</u>	<u>Peers*</u>	<u>VNI</u>
Foreign Room:	\$3.6bn	P/E (ttm)	23.5x	20.5x	15.7x
ADTV30D:	\$4.4mn	P/B (curr)	8.4x	2.7x	2.4x
State Ownership:	36.0%	Net D/E	-27.8%	-26.4%	N/A
Outstanding Shares:	1,741.7 mn	ROE	39.6%	15.0%	15.2%
Fully Diluted Shares:	1,741.7 mn	ROA	28.2%	10.1%	2.4%
3-year PEG:	2.7				

Company Overview

VNM is the largest dairy company in Vietnam with over 55% market share overall. With more than 40 years of expertise, VNM has established a prominent brand name for its portfolio, including liquid milk, powdered milk, yogurt, condensed milk and beverages distributed through the most extensive nationwide network.

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Domestic sales still weak, exports improve in Q3 2018

VNM's soft domestic dairy revenue in Q3 2018 (-4% YoY per our estimate) undershoots our expectation of a mild recovery after a weak H1 2018. On the other hand, exports strengthened in Q3 2018 while G&A also came in lower than our projections. These offsetting factors prompt us to think that there will be no material change to our 2018 NPAT-MI forecast, pending a fuller review. Having said that, we will need to explore the prolonged weakness in domestic dairy consumption, even though we remain positive on the industry's long-term growth, premised on Vietnam's underpenetrated dairy consumption per capita and consumer up-trade.

VNM's domestic dairy sales remained sluggish. In order to exclude revenue from the newly consolidated sugar business, we look at VNM's parent company results for its domestic dairy performance. Based on this, we estimate that VNM's domestic dairy revenue slid by 4% YoY in Q3 2018 after slipping 1% YoY in H1 2018. We previously expected a recovery in domestic demand for FMCG, including dairy, in H2 2018, but this has not materialized.

Exports strengthened in Q3 2018. We note that this segment remains highly dependent on the Iraqi market, which accounts for more than 70% of VNM's export revenue. In Q3 2018, exports grew by 10% YoY and 11% QoQ. Overall, exports slid by 4.5% YoY in 9M 2018, slightly ahead of our forecast of a 6% decline in full-year 2018 vs 2017.

Domestic dairy GPM remained stable. Domestic dairy GPM stayed resilient at 48.3% in Q3 2018 (+80 bps YoY) vs 48.1% in H1 2018, per our estimate. On the other hand, blended GPM of total domestic revenue, which also includes the newly consolidated sugar business, contracted by 1.8 ppts YoY to 46.3% in 9M 2018 due to thin sugar margins. Under our estimate, sugar contributed roughly 5% to VNM's total domestic revenue in 9M 2018.

SG&A increased off a low 9M 2017 base. SG&A as a percentage of sales expanded by 1.1 ppts in 9M 2018 vs 9M 2017 to 23.8% due to higher promotion, display and commission expenses (+9% YoY), causing EBIT to decline 9% YoY. We note that 9M 2017 SG&A was off a low base as VNM front-loaded the recognition of some advertising and promotion expenses in Q4 2016, which would have been recognized in Q1 2017. On another note, after declining by 2% in 9M 2017 vs 9M 2016, G&A expenses surged by 78% YoY in Q4 2017 vs Q4 2016 due to an increase in cash bonuses for employees thanks to the outperformance of the domestic dairy segment in 2017. Given the subdued domestic dairy results so far in 2018, we think this is unlikely to repeat in Q4 2018.

VNM's Q3 and 9M 2018 results

VND bn	Q3 2017	Q3 2018	YoY growth	9M 2017	9M 2018	YoY growth	% of VCSC's 2018 forecasts
Net revenue	13,293	13,735	3.3%	38,691	39,558	2.2%	73.8%
Domestic*	11,503	11,659	1.4%	33,021	33,867	2.6%	73.2%
Exports	1,117	1,226	9.7%	3,423	3,268	-4.5%	78.9%
Driftwood, Angkor Milk	673	850	26.4%	2,246	2,423	7.9%	76.8%
Gross profit	6,271	6,494	3.6%	18,630	18,449	-1.0%	74.7%
Domestic*	5,423	5,405	-0.3%	15,867	15,678	-1.2%	73.7%
Exports	710	743	4.6%	2,261	1,947	-13.9%	79.7%
Driftwood, Angkor Milk	138	345	150.8%	502	824	64.2%	87.1%
Selling expenses	-2,981	-3,411	14.4%	-8,337	-8,905	6.8%	73.2%
G&A expenses	-265	-287	8.1%	-739	-803	8.6%	67.9%
Operating profit	3,025	2,796	-7.6%	9,554	8,741	-8.5%	77.1%
PBT	3,224	3,034	-5.9%	10,143	9,371	-7.6%	76.9%
NPAT-MI	2,694	2,560	-5.0%	8,551	7,928	-7.3%	77.5%

Source: VNM, VCSC (*including sugar)

VCSC Rating and Valuation Methodology

Absolute, long term (fundamental) rating: The recommendation is based on implied total return for the stock defined as (target price – current price)/current price + dividend yield, and is not related to market performance.

RATING	DEFINITION
BUY	Total stock return including dividends over next 12 months expected to exceed 20%
OUTPERFORM (O-PF)	Total stock return including dividends over next 12 months expected to be positive 10%-20%
MARKET PERFORM (M-PF)	Total stock return including dividends over next 12 months expected to be between negative 10% and positive 10%
UNDERPERFORM (U-PF)	Total stock return including dividends over next 12 months expected to be negative 10%-20%
SELL	Total stock return including dividends over next 12 months expected to be below negative 20%
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